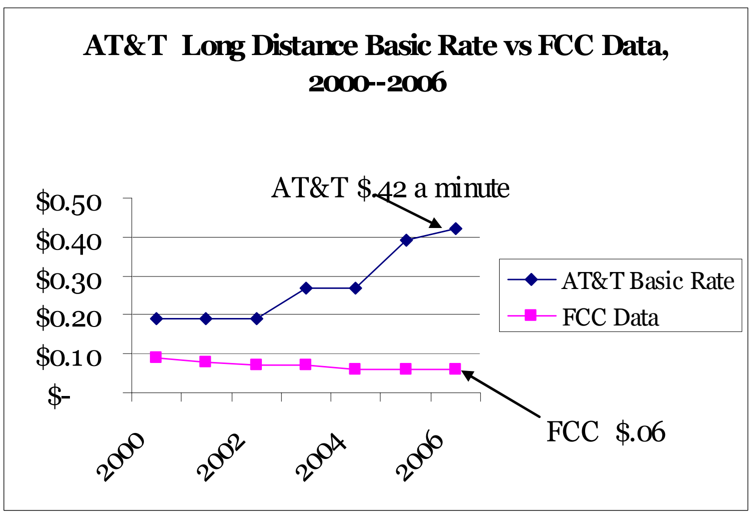
AT&T and MCI's Customers Being Harvested: Major Price Increases for Basic Long Distance and Other Services and the Harms to Customers, Especially Low Volume Users and Seniors.

The Failure of the FCC's Data and Analysis to Properly Examine Phone Bill Prices and Competitive Choices.

Dumb Consumer or Dumb FCC?



FCC Chairman Martin:

> "Since 1996 the prices of every other communications service have declined while cable rates have risen year after year after year."

This report clearly demonstrates that the FCC's data is seriously flawed and just plan wrong. Worse, the agency's reliance on outside sources for data, including bell-funded research firms and lobbying groups, has put America on the wrong path and harmed the majority of customers, especially seniors and low-volume users.

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Teletruth's Analysis of AT&T and MCI's Costs to Customers for Basic Long Distance Service.

Executive Summary: Primary Findings:

Part One:

- 30-40 million AT&T and MCI customers were harmed with increases of 200%+ since 2000, especially seniors and low volume customers.
- Millions of customers are paying $.50-$1.00 a minute or more for long distance when all of the charges are added together.
- "Basic" long distance rate for AT&T is $.42 a minute (day rate) and does not include increases or new fees: Minimum Usage, Monthly Fee, Cost Recovery, Single Bill Fee, In-state Connection fees and increases to the Universal Service Fund since 2000.
- AT&T and MCI are intentionally "Harvesting" customers: "Harvesting refers to AT&T's increasing price increases to encourage customers to discontinue service."

Part Two:

- The FCC data is seriously flawed and it covers over the phone bill problems in multiple ways.
- The FCC claims that telephone fees are going down for all customers. The Agency is wrong.

- The Agency has allowed intentional harms to AT&T and MCI customers and has failed to examine the impacts on 1/3 of US customers, especially low volume users, including seniors.
- The FCC no longer collects accurate data and is giving out 'astroturf' groups' information as 'accurate' data.

Part Three:

- There is no true competition for the majority of US customers.
- The majority of customers do not benefit from packages, including those supplied by cable companies or VOIP.
- Wireless is also not a competitive option for low volume customers. AARP study shows that most seniors', if they have a cell phone, have it because of security and emergency reasons.

Part Four:

- Customers who were loyal to the most famous brand in telecom, AT&T, were intentionally duped.

Conclusion: Against a backdrop of a well-heeled marketing plan to intentionally harm low volume and seniors through massive price increases, without a significant educational campaign to overcome unreadable phone bills, and with a total failure of oversight by the FCC and regulators, who also lack their own accurate data, why should we expect any other outcome than to harm 1/3 of the US phone customers?

This material is based on the "Send Us Your Phone Bill" campaigns conducted by Teletruth, a research grant from the California Consumer Protection Fund, TRA's phone bill and telecom auditing services, phone companies' data and FCC supplied data.

Background:

In 1996 Congress passed the Telecommunications Act of 1996, which was an update of the original Telecommunications Act of 1934. This new law allowed the local Bell phone companies to enter the long distance market in exchange for opening up their local networks to competitors. Previously, the Bell companies were restricted from offering long distance service because the court rightly saw that the local incumbents could use their market power to give them an advantage in sales and marketing with customers.

See: "Who are the Bell companies?" (Now AT&T, Verizon and Qwest.)
http://www.teletruth.org//History/history.html

Starting in 1996, AT&T and MCI began to offer local service to compete with the Bells and the Bell companies started to apply to offer long distance service state-by-state. By 1999, NYNEX, in New York, was the first to be granted entry into the long distance market. (By 2003, more than 40 of the states had been approved, though virtually all states had applied, even though their networks were not open to competition. See Appendix One for the list of approvals by 2003.)

In 2000, according to the FCC, AT&T and MCI had some 62% of all households for long distance service, (about 62 million customers) with an estimated 42 million using a 'basic rate' plans.

However, by the year 2004, the entire marketplace was being manipulated by the FCC. The FCC closed the networks to competitors, including voice services and DSL/Internet thus blocking AT&T and MCI from continuing in the local service markets. These companies were then put up for sale. The two largest national, name brand competitors were put out of business through bad regulation, not competition.

Along side these events, starting in 1996 the Bell companies began merging with their siblings. (See the history for more about the mergers.) During the last two mergers, AT&T was bought by SBC and MCI was bought by Verizon, allowing these new companies to vertically integrate local, long distance, broadband and Internet provisioning (ISP services). And more recently, the newly named AT&T (formerly SBC) merged with Bell South.

The FCC Has Been and Continues to Use Bad Data to Make Bad Policies.

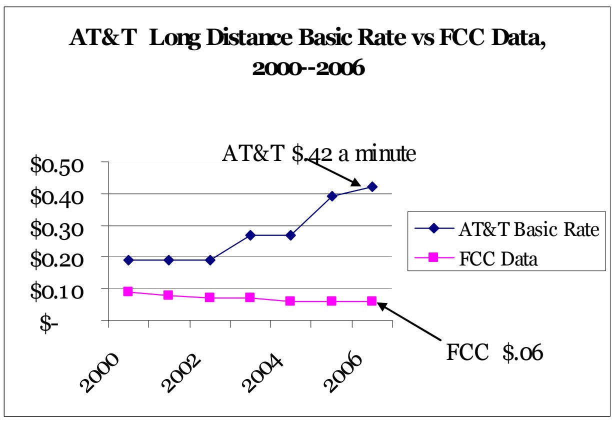
In all of this maneuvering, the FCC relinquished its role to actually track some basic questions. What happened to the 62 million AT&T and MCI customers? The FCC's data covers over what really happened.

The FCC claims that the costs of offering service have been in serious decline. Chairman Martin quotes the Bell-funded Phoenix Center "Indeed, in a 2005 Policy Paper, the Phoenix Center found that: "With the marginal cost of providing a telephone call in free-fall…."

And the FCC claims that local and telecommunications prices continue to decline.

"Since 1996 the prices of every other communications service have declined while cable rates have risen year after year after year."

We were told that competition and the mergers would lower rates. Just to make clear just how flawed the FCC's analysis is: This chart outlines that AT&T's basic rate went from $.19 to $.42 while the FCC claims that the cost per minute went from $.09 to $.06 by 2004, How can the FCC make the claim that service prices are dropping?



Prices Have Skyrocketed for Most Phone Customers, Especially Low Volume Users.

In 2000, under an agreement known as the "CALLS' plan, AT&T promised to lower long distance rates and protect low volume users by eliminating the minimum fees and monthly charges, and lowering the price per minute to $.19. See the AT&T commitment letter: http://www.newnetworks.com/ATTCALLS3.htm

Instead, since 2000:

- "Basic" long distance rate for AT&T is $.42 a minute (day rate) and does not include increases or new fees: Minimum Usage, Monthly Fee, Cost Recovery, Single Bill Fee, In-state Connection fees and increases to the Universal Service Fund since 2000.
- MCI's Basic Rate for one minute is $.35, and the company has also added the same fees as AT&T walking lock-step in increases.

- 30-40 million AT&T and MCI customers were harmed with increases of 200%+ since 2000, especially seniors and low volume customers.
- Millions of customers are paying $.50-$1.00 a minute or more for long distance when all of the charges are added together.
- Note: 30% of all customers are low volume users, making approximately 15 minutes of calls a month.

Local Service Increases Have Also Been Extensive.

While stand alone AT&T and MCI long distance service has had massive increases, Verizon has been busy raising the local rates as well. By 2006, local service in New York City has increased 426% for the same service offered in 1980.

See our Harvard Nieman article: "Local phone charges have soared since the break-up of AT&T" September 18, 2006
http://www.niemanwatchdog.org/index.cfm?fuseaction=ask_this.view&askthisid=00233

As we discuss, since 1980, the FCC added a new charge, the "FCC Line Charge", now capped at $6.50 a month, many of the services that were part of local service, like directory assistance or the wire in the home became ala carte and had major increases. And every fee, including the basic local service fee continues to increase.

Ironically, this is all against a backdrop of falling costs to offer service. Since 1984, there has been a 65% drop in employees as compared to revenue for the Bell companies while their construction budgets for telecom has fallen 60%. Therefore, it is much cheaper to offer local service today than it was in when the Bells were born in 1984.

The Deep Dark Secret: Harvesting of AT&T Customers, Collusion with Verizon.

By examining phone bills it is clear what happened -- AT&T and MCI customers were harmed, especially low volume users. It is clear that SBC and Verizon are now systematically milking loyal customers for every cent they can get and because of unreadable phone bills, and brand loyalty, the plan is a cash machine.

But don't take our word on this. In a footnote in the AT&T-SBC merger we find that AT&T has been "harvesting" its 25 million customers. According to the FCC quoting AT&T,"

> "Harvesting refers to AT&T's increasing price increases to encourage customers to discontinue service." [1]

MCI has been using the same plan of raising rates:

> "18. MCI is not now, nor could it become, a price leader for residential services. To the contrary, MCI has increased fees and rates, and has plans to continue to do so in the future. For example, in September 2004, MCI increased the Carrier Cost Recovery Charge for stand-alone long distance to $0.85. In January 2005, MCI increased rates for local customers in Qwest territory by $1.90, and followed this in March 2005 with a $1.90 increase in the remainder of the country."

This is a clear, intentional harm and it has been seniors who have been particularly harmed by these increases. AARP conducted a survey in 2000.[2] Loyal customers are not rewarded.

- 75% of seniors were paying basic rates and on average, made only 3 calls a week.
- 74% used either AT&T or MCI.
- Only 33% of seniors said they "search among long distance telephone providers for the least expensive rate.

Competitive Options Don't Exist for Low Volume Users.

The FCC's data is so bad that it covered over the fact that for the majority of US customers, especially low volume users, there is no longer serious competition. Rates continue to increase, not decrease, and the FCC continues to make bad decisions based on seriously flawed data.

In fact, the FCC Order for the SBC-AT&T merger claims that long distance users were a 'fringe' market".[3]

> "Long Distance Services There is significant evidence in the record that long distance service purchased on a stand-alone basis is becoming a fringe market."

How does 30-40 million customers become a fringe market? Since the FCC has no data on this topic, it is impossible for them to extrapolate what is actually happening in the current market, not the hypothetical future market.

In fact, the data is clear: SBC (AT&T) and Verizon (MCI) are now in the process of a) raising local rates because competition doesn't exist, b) raising long distance charges through the addition of multiple fees, increased minimums and other tricks, making AT&T and MCI products no longer a competitive, viable solution.

This is being done so that customers are being forced onto higher-cost packages in their own regions. For example, Verizon owns 13 states, not to mention the GTE territories. In New Jersey, customers had a choice of AT&T, MCI, as well as Verizon products. AT&T is no longer an option, MCI, bought by Verizon, is no longer an option, and so the only likely alternative is the Verizon package. And with the consolidation of SBC-BellSouth, (the new AT&T), this conglomerate now controls 25 states.

Packages Can Cost More For Most Customers.

As we will demonstrate, while the advertised price of a package may sound reasonable, the actual cost of a package is usually 35%-45% more because many taxes and surcharges are simply missing. In fact, the FCC Line Charge is usually NOT included in the package price, even though this adds $6.50 and is required for local service. Teletruth's data indicates that 15-25% on packages are paying more than purchasing ala carte.

Cable telephony is not an option in that it requires the customer to buy a package, not to mention cable service. The companies do not sell stand alone local or long distance service. Meanwhile, VOIP requires broadband and so it is not an option because a customer would have to not only purchase DSL from Verizon, but also its local service before you can use a VOIP package or pay a premium for using the customer's own wires.

And is wireless as competition for low volume users? There is absolutely no data pertaining to this topic by the FCC, even though the FCC claims that wireless is now a major competitor to wireline services. AARP's cell phone study in 2005 debunks that because there is a lower penetration of cell phone users, and the primary use is for security and emergency needs, not casual calling.

In short, there are no longer any national brands offering stand along long distance, even though at least 30-40% of the US could still on their previous services and are now experiencing major increases.

Against a backdrop of a well-heeled marketing plan to intentionally harm low volume and seniors, without a significant educational campaign to overcome unreadable phone bills, and with a total failure of oversight by the FCC and regulators, who also lack their own accurate data, why should we expect any other outcome than to harm 1/3 of the US phone customers?

The rest of this report outlines the major increases to customers, the lack of accurate data and the lack of competition, especially for 'low volume users.

There are two other important tie-ins to this data will be presented in other documents.

- "Missoula Inter-carrier Compensation plan", another FCC cover-up to raise local rates. In 2000, the FCC created the "CALLS" plan which was supposed to lower long distance rates in exchange for raising the FCC Line Charge, a charge on every local bill from $3.50 to a cap of $6.50. This plan backfired as we see from the increases to long distance service by AT&T, and the new plan,

  Missoula, misnamed, is going to raise the FCC Line Charge from $6.50 to $10.00 as well as add a new charge and increase the Universal Service Fund tax. And it will directly harm seniors and low volume users:

  > "The lowest volume users of wireline and wireless services will see some small increases: about $1.50 per month for low volume rural wireline consumers, $2.05 per month for low volume urban wireline consumers, and $0.10 for low wireless customers."

- AT&T-SBC, MCI-Verizon mergers. These mergers have still not been totally approved by Judge Sullivan. It is clear that these mergers intestinally harmed over 30-40 million customers, thus failing any public interest examination and anti-trust requirements.

We have submitted a new letter to Judge Sullivan outlining the harms to customers.
SEE: http://www.teletruth.org/docs/JudgeSullivanfin.doc

DEFINITIONS:

- *Local Service:* A Service offered mostly by Verizon, AT&T, BellSouth, Qwest and the other 'local incumbents. It supplies local phone service, including Calling Features, inside wiring, and can supply Toll Calls. There is no data by the FCC of the number of stand alone local service customers.

- *Long Distance Service.* This is a service that provides "interstate' calls, i.e., calls between states or 'Toll Calls' calls within the state but not 'local'. There is no data by the FCC of the number of stand alone local service customers.

- *Packages:* This is a bundle of "local and Long distance" service, but can also include DSL or cable modem service, wireless, or able TV. There is no data by the FCC of the number of stand alone local service customers.

Telecom Timeline

1996	Telecommunications Act of 1996 opens up the local phone networks for competition. In exchange, the Bell local phone companies would be allowed to offer long distance service. It also required 'line sharing' so that competitors could use the local phone customers' line for DSL/broadband.
1996	Bell companies sue over allowing competitors to use their networks.
1999	Verizon, New York enters long distance.
1999	SBC merges with Ameritech – Promises to compete in 30 cities outside their own regions by 2002
2000	Bell Atlantic merges with GTE, renamed Verizon. Promises to compete in 24 cities outside their own regions.
2000	CALLs Plan raises FCC Line Charge, claiming it would also lower long distance prices.
2001	August, FCC stops monitoring long distance markets and data.
2003	May, 41 states and the District of Columbia approved for long distance.

2004 June, Court case stops wholesaling of local networks. FCC refuses to appeal.

2004 June, AT&T and MCI start pull out of residential local business. AT&T had 4.3 million residential customers nationwide and 30 million long-distance customers.

2004 November, SBC announces "Lightspeed" service. (Used as part of the AT&T merger.)

2005 January, SBC announces merger plan for AT&T.

2005 February, Verizon announces merger plan for MCI.

2005 August FCC ends regulations requiring incumbent telecommunications carriers to share their DSL broadband connections with competitors.

2006 September, 42% drop in competitive lines since 2004.

2006 August, Court backs FCC decision to close new fiber-optic builds to competition.

2006 Cable companies claim only 7% of households with phone service. AT&T and MCI are no longer offering competitive products. AT&T and MCI are now engaged in harvesting, increasing local and long distance prices to push customers to their more expensive packages. AT&T and MCI are NOT competing. The Bell companies are not competing.

Merger Timeline: The Elimination of Competition:

In 1984, AT&T, once the largest company in the world was broken up because of its failure to allow competitors to use the network. AT&T kept the long distance business, while 7 new 'baby bells' were created, each given a number of states to control.

These were: Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Bell, Southwestern Bell, US West. SNET and GTE were separate 'incumbent' companies, commonly called ILEC (incumbent local exchange company). AT&T, MCI and Sprint were the three largest long distance companies, (long distance being defined as "interstate" – calls between states.

By 2006,

- SBC purchased AT&T, Pacific Bell, Ameritech, SNET, Southwestern Bell, and now Bell South, giving it 25 states covered as well as the largest long distance company AT&T, and renamed itself AT&T. SBC and BellSouth also owned Cingular, and also branded it AT&T.
- Verizon, purchased Bell Atlantic, NYNEX and GTE and MCI, the second largest long distance company, as well as owns Verizon wireless. It controls 13 states and a scattering of former GTE territories throughout the US.
- US West was purchased by Qwest and that is the only remaining Bell, controlling the Northwestern states.

Ironically, though each merger was supposed to bring new competition between these companies --- SBC promised to be competing in 30 cities outside it's region by 2002 when it merged with Ameritech, Verizon promised to be in 24 cities outside its region when it merged with GTE… lied. Today, no Bell company is a serious competitor to another Bell company outside its regions.

At each merger, companies that claimed they would compete instead consolidated.[4]

1996 SBC announces Pac Bell
1996 Bell Atlantic merges with NYNEX – change name to Bell Atlantic
1998 SBC merges with SNET
1998 MCI merges with WorldCom
1999 SBC merges with Ameritech
2000 Bell Atlantic merges with GTE, renamed Verizon
2000 US West merges with Qwest, renamed Qwest.
2005 SBC merges with AT&T, renamed AT&T
2005 Verizon merges with MCI.
2005 Sprint merges with Nextel
2005 AT&T requests merger with BellSouth, approved December 2006. AT&T changes its name to at&t (no caps.)

Part One: AT&T and MCI Long Distance Basic Rates and Changes, 2000-2006.

1) **AT&T Phone Charges for "Basic Service" Long Distance.**

AT&T's current 'basic rate' has increased to $.42 a minute for basic rate customers, up from $.19, based on the CALLs commitments. Here's an actual phone bill page.
http://www.newnetworks.com/at&tbasiclongdistancecharg.htm

2) **Comparing AT&T Long Distance Basic Rate Service 2000 -2006: 237% Increase.**

AT&T Residential Basic Rates, 2000-2006

	1999	2006	
Plan Fee	-	$3.95	
Cost Recovery	-	$1.99	
Instate Connect	-	$1.75	
	$1.50	-	
Calls	$2.85		
(15minutes)		$5.16	
USF	$0.11	$1.29	
Taxes	$0.33	$1.50	
Surcharges	$0.11	$0.90	
Total	$4.91	$16.53	
Per Minute	$0.33	$1.10	237%

Since 2000, there's been a 237% increase in AT&T's long distance basic rates as well as the addition of new, questionable, unmandated charges. Since 2000:

- AT&T raised the "Basic Rates" from $.19 to $.42.
- AT&T added new additional fees "Minimum Usage Fee", "Plan Fees", "Cost Recovery Fee", "In-state Connection" fee.
- Increased Universal Service Fees – Universal Service in 2000 was 3.9% as compared to averaging around 10% in 2006.
- Taxes and surcharges are applied to these new fees.

This outlines the various AT&T charges' definition:
http://serviceguide.att.com/ACS/ext/mcs.cfm
However, the bottom line to all of this is that for low volume users, when all of the charges are added together, the cost per minute went from $.33 a minute to $1.10 a minute. We do note that it is different for different customers. For example, Teletruth's surveys found that low volume customers, approximately 30% of households, made only 15 minutes of calls. But, our survey also found a large number of customers can make few, if any calls, but, they are charged all of the fees, which are also taxed. This can mean that a low volume customer who makes 3-5 minutes is paying $2-$4 dollars a minute.

NOTE In order to not intentionally bias the analysis, we prorated the calling patterns based on FCC' supplied information pertaining to calling patterns including time of day, weekend discounting of calls. [5] (We will return to this issue later.)

3) Corroboration of the $.42 a Minute Charge/ Increase.

The following chart is taken directly from AT&T supplied tariff information.[6]

AT&T Basic Rate Per Minute, 2006

Peak	Off-Peak	Weekend
Rate per Minute	Rate per Minute	Rate per Minute
$0.4200	$0.3650	$0.2350

4) Guaranteed High Bills: Minimum Usage Increases on ALL Offerings.

AT&T has essentially upped the ante for every customer by increasing monthly minimum usage charges; (Note, this charge was a supposed to be eliminated for low volume users under CALLS.)

From AT&T web site:

> "AT&T Usage Minimum General Information
> Customers on these calling plans enjoy great rates usually with a small or no monthly plan fee. In order to keep these rates low and still recover our costs of providing basic service, it is necessary to

continue the usage minimum on these calling plans. For example, if your monthly calling charges are $4.00, and your plan has a $5.00 monthly minimum usage then $1.00 will be added to your bill.

The monthly usage minimum is $5 for customers enrolled in the AT&T One Rate Simple Plan effective 7/1/06."

The web site continues:

"The monthly usage minimum is $7 (this will increase to $9, effective 8/1/2006) for customers enrolled in the following plans:"

- AT&T Simplified Calling
- AT&T One Rate Basic
- AT&T One Rate 12¢
- AT&T Corporate Appreciation
- AT&T eWeekends (Online offer)
- AT&T One Rate Online
- AT&T One Rate Off-Peak California

"The monthly usage minimum is $9 (this will increase to $9.99, effective 9/1/2006) for customers enrolled in the following plans:"

- AT&T Cash Back Offer
- AT&T True Reach Savings
- AT&T One Rate Off-Peak
- AT&T 5¢ Evenings (Online offer)
- AT&T One Rate 7¢
- AT&T One Rate 9¢
- AT&T Simple Minutes
- AT&T One Rate
- AT&T One Rate Off-Peak III
- AT&T 5¢ Nights (Online offer)
- CALL ATT Seven Cents
- AT&T One Rate 10¢

We note that the web site outlines that this minimum does NOT apply to most fees the customer will pay.

"Calls That Qualify Towards the Minimum. All your pre-merger AT&T direct-dialed domestic and international long distance, pre-merger AT&T Local Toll calls, pre-merger AT&T Calling Card calls, operator handled and directory assistance calls will apply toward the minimum. Examples of charges that do not apply toward the monthly usage minimum include the Bill Statement Fee, In-State Connection Fee, Cost Recovery Fee, Universal Connectivity Charge, and any taxes or surcharges. http://www.consumer.att.com/usage_min/ "

Therefore, if the customers make less than $10.00 a month in calls they are charged the difference. And every other fee is also applied to the customers' bills.

5) Increases to Other Plans Have Been Equally As Odious.

This next example is a '5 cent plan' that was designed for heavier users. Using the FCC's average of 57 minutes (including toll calls), (explained in future sections) this plan shows that from May 1999 to November 2006, there's been major increases in the monthly plan fee, the addition of new fees, so the actual cost per minute has gone up 87%.

AT&T 5 Cent A Minute Plan, 1999-2006.

	May-99	2006	Increase
AT&T 5 Cent	$ 4.95	$ 8.95	81%
Instate Connection		$ 1.75	
Carrier Line Charge	$ 1.51		
Cost Recovery		$ 1.99	
Call Minutes (57)	$ 2.85	$ 2.85	
USF	$ 0.36	$ 1.51	315%
Total	$ 9.31	$15.54	67%
Cost Per Call	$ 0.31	$ 0.57	87%

When all of the fees are added up, the cost per minute (not counting taxes and surcharges) went from $.31 to $.57. Obviously, if someone makes only 5-10 minutes of calls, the cost per minute will be dollars-per minute.

6) Other Charges Have Also Increased.

Most of the other charges have also had outrageous increases:

Late Fee Increases:

The most odious addition is the "Late Fee". According to a 5 Cent plan customer, with a bill of $54.67 for November 2006, the customer was charged $5.00, even though 1.50% of the total should be $.82 cents. The phone bill doesn't say 'whichever is more money".

"Late Payment fee 1.50% of $54.67 or a minimum of $5.00."

This means that the customer paid almost a 10% late fee for one month. We note that having 'late fees' is many times caused because the phone company, not the customer, has determined which date during the month the phone bill is due. I.e., a customer may have a billing cycle that ends on the 20th of the month, not the end of the month.

7) AT&T Isn't Properly Updating Their Web Site.

We note that some of the information supplied by AT&T in other places on their web site has not been updated with new data. This data, found December 2006, is months old.

> "What are AT&T basic rates? What is the AT&T basic rate plan? https://www.customerservice.att.com/assistance/faq/qa/0,14215,faqCategoryId%253Dld_shop_faq,00.html#q1
>
> "They are the standard long distance rates charged customers who are not enrolled in another AT&T calling plan. There is a $3.95 monthly recurring charge associated with the state to state direct dialed basic rate plan (sometimes referred to as the basic rate plan), which applies each month whether or not a customer makes a call. The current per minute state-to-state basic rates are as follows: 39¢ Peak (7 AM - 6:59 PM, M - F), 33.5¢ Off Peak (12 AM - 6:59 AM and 7 PM - 11:59 PM, M - F) and 10¢ on Weekends. In-state basic rates vary by state."

We have found many other instances throughout the web site that reference old, thus incorrect data.

8) MCI Service Costs for Basic Long Distance Service.

AT&T and MCI Residential Basic Rates, 2006

	MCI	AT&T

Plan Fee	$5.95	$3.95
Cost Recovery	$1.25	$1.99
Bill Fee	$0.99	
Instate Connect		$1.75
Carrier		-
Calls (15minutes)	$4.00	$5.16
USF	$1.22	$1.29
Taxes	$1.56	$1.50
Surcharges	$0.94	$0.90
MCI Additional 2.5%	$0.34	
Total	$16.25	$16.53
Per Minute	$1.08	$1.10

- $5.95 monthly charge

Per Minute Rates

- $0.35 All Day Monday-Friday
- $0.10 All Day Saturday and Sunday

- “**Basic In-State Dial 1 Long Distance and Local Toll** Rates vary among such states and are subject to change, so please contact the Company for specific rate information. Current basic in-state Dial 1 rates in such states do not exceed $0.50 per minute.
- **Calling Card: State-to-State Per-Minute Rate:** $1.25 Per-Call Surcharge: Direct Dial You place a Company-issued calling card call without using the Company’s operator services: $1.75
- **Directory Assistance**: DA charge Per-Call Charge: $3.49 NOTE: applies to each call regardless of whether or not the DA operator is able to furnish the requested telephone number.
- **Rules of Rounding**: For billing purposes, the length of each call is rounded to the next higher full minute.
- **Carrier Cost Recovery Charge** The Company imposes a monthly charge in order to recover expenses the Company incurs with regard to the national fund for Telecommunications Relay Service, national number portability, access charges, and federal regulatory fees and programs. This charge, assessed on your state-to-state and international charges, is $1.25 per account per month for long distance customers

- **Company Billing Option Fee** ---you will be subject to a monthly $3.99 Local Telephone Company Billing Option Fee if you receive the Company's charges combined within your local telephone bill (where the Company is not your local telephone provider). The Local Telephone Billing Option
- **Paper Billing Fee**: (If you receive a monthly paper invoice directly from the Company, you will be subject to a monthly 99c Paper Billing Fee.
- **Payphone surcharge**: in the U.S. or the U.S. territories and are carried over the Company's network will include a $0.55 charge.
- **Taxes**: a tax-related surcharge in addition to the other charges for service, based on billing availability, equal to 2.5% of the total interstate and international charges (including usage and nonusage) after the application of applicable discounts and credits, which allows the Company to recover a portion of the property tax that it pays to state and local jurisdictions."

9) Local Service Harms

Alongside the continued price increases to long distance customers, stand alone local service has also been hit with massive increases, again with the FCC failing to accurately track these customer harms.

By 2006, local service in New York City has increased 426% for the same service offered in 1980.

See our Harvard Nieman article: "Local phone charges have soared since the break-up of AT&T" September 18, 2006
http://www.niemanwatchdog.org/index.cfm?fuseaction=ask_this.view&askthisid=00233

This link is to actual phone bill charges for the same customer service from 1980 through 2006.
http://www.newnetworks.com/NYClocal%20charges19802006.htm

In 1980, local service in New York City cost $7.63, which included 6 free directory assistance calls, a $4.00 call allowance for local phone calls, the wiring in the home and even a phone.

By 2006, not only is everything ala carte. One directory call cost $1.46 counting tax, the inside wiring fee is now $4.48, the FCC Line Charge, which was not on the bill is now $6.40.

For stand alone local service, every low volume user is now paying exorbitant amounts just to maintain phone service. And with the FCC's new plan to raise the FCC Line Charge to $10.00, as well as add new fees, all of these charges simply means more revenue to the phone companies.

We need to note; The FCC Line Charge is not only misnamed, as it does not go to fund the FCC as is the common perception, but is direct revenue to the local phone companies. It is unaudited as well, and our data and complaint to the FCC outlines how this charge should have been reduced from the original $3.50 in 2000, not increased.

To read more about local service,
http://www.newnetworks.com/phonebillissues.htm
To read our complaint against the FCC over the FCC Line Charge:
http://www.newnetworks.com/PRFCCLIne.htm

10) Market Shares of AT&T and MCI Then and Now?

How many AT&T and MCI customers have been impacted by the phone bill increases, have local, long distance, or packages? Let's start with some of the last data published by the FCC.

AT&T, MCI, Sprint and ALL Others, Long Distance Service
By Households, 2001

	AT&T	MCI/ WorldCom	Sprint	All Others	BELLS
2001	38%	24%	9%	24%	6^%

"By 2001, AT&T's market share had declined to slightly less than 38%, MCI's share was almost 24%, Sprint's was 9%, the regional Bell operating company (RBOC) long distance affiliates had over 6%, and more than 1,000 other long distance carriers had almost 24% of the remaining market.

> "While the RBOCs effectively served no households in 1999, they captured 15.8% of households by 2002. In 2002, the remaining 24.1% of households were served by other carriers."

We also know that in 2000, AT&T claimed that 26 million customers were using basic rate schedules. [7]

> "AT&T sent letters to each of its 26 million Basic Schedule customers describing changes in long distance rate plans and identifying a range of options for them to consider."

Therefore, in 2001, there were 38 million AT&T households, of which 26 million, 68% of AT&T residential customers, were on the 'basic rates' plan. Using this same calculation, we then estimate that MCI's 24% of households probably had 16 million basic rate customers.

In short, we estimate that in 2001, about 42 million customers had basic rate plans.

Note: There are about 110 million households and approximately 10% don't have phone service. For simplicity, we will use 100 million households equals 100% of household customers.

This is the last piece of data we could find from the FCC pertaining to long distance market share.

Other data could be found when AT&T filed to merge with SBC. According to January 2005, AT&T had 25 million long distance and local/package customers, but the FCC did not know how many stand alone local, long distance or competitive packages by carrier were available before the mergers. As we will demonstrate, this failure to collect accurate data on multiple fronts has led to seriously flawed analysis and thus, policy.

MCI's Customer Base Prior to the Mergers?

We tried to ascertain exactly how many MCI customers there were from 2000 through 2005 before the merger. Here's what we were able to ascertain:[8]

> "Lines: In January 2003, MCI's consumer business had [BEGIN PROPRIETARY] [END PROPRIETARY] stand-alone long

distance accounts. That monthly number had dropped to [BEGIN PROPRIETARY] [END PROPRIETARY] by January 2005. In January 2003, MCI had [BEGIN PROPRIETARY] [END PROPRIETARY] integrated local/long distance lines, which increased to [BEGIN PROPRIETARY] [END PROPRIETARY] lines in June 2004 and dropped to [BEGIN PROPRIETARY] [END PROPRIETARY] for January 2005. The number of stand-alone local lines dropped from [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2003 to [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2005. Furthermore, MCI is losing customers on a monthly basis, across all segments. In the last six months of 2003, MCI lost [BEGIN PROPRIETARY] [END PROPRIETARY] of its standalone long distance lines, averaging a net loss of [BEGIN PROPRIETARY] [END PROPRIETARY] stand-alone long distance lines per month. In the first six months of 2004, MCI lost an additional [BEGIN PROPRIETARY] [END PROPRIETARY] of its stand-alone long distance lines, averaging a monthly line loss of [BEGIN PROPRIETARY] [END PROPRIETARY], and in the last six months of 2004, it lost [BEGIN PROPRIETARY] [END PROPRIETARY], or a monthly average of [BEGIN PROPRIETARY] [END PROPRIETARY] lines. Similarly, MCI has lost [BEGIN PROPRIETARY] [END PROPRIETARY] of its integrated local/long distance lines in the second half of 2004, averaging a monthly net loss of [BEGIN PROPRIETARY] [END PROPRIETARY] lines."

Part Two FCC Data Is Seriously Flawed and Is Creating Harmful Public Policies.

Source: FCC Reports can be found at:
http://www.fcc.gov/wcb/iatd/lec.html

Teletruth and New Networks Institute have filed multiple times pertaining to the FCC's data collection and analysis pertaining to phone bills. In fact, Teletruth has its own page at the FCC pertaining to the "Data Quality Act". And New Networks Institute has filed complaints about the data starting in 1993.

http://www.fcc.gov/omd/dataquality/welcome.html#requests

The information pertaining to long distance service is so contradictory or simply missing that any sensible examination can not answer basic questions. Moreover, the failure of the FCC to accurately assess this marketplace has lead to direct customer harms, and a flawed regulatory policy that has killed off the competition and choice.

11) Long Distance Is a Fringe Market?

The FCC Order for the SBC-AT&T merger, the FCC claimed that long distance users were becoming a "fringe' market". [9]

> "Long Distance Services There is significant evidence in the record that long distance service purchased on a stand-alone basis is becoming a fringe market"

How does 30-40 million households, over 100 million people, become a fringe market? A 1/3 of the entire country is a "fringe market"? Since the FCC has no data on this topic, it is impossible for them to extrapolate what is actually happening in the current market, not the hypothetical future market. And, what is clear from our data is that the FCC has failed to examine the specific sub-classes of users, such as low volume users or seniors to see if the impact of a decision does not skew against a specific class.

12) The FCC Relinquished Its Age Old Requirement to Collect and Create Accurate Research for Long Distance Services in 2001.

To start, the FCC admits that it has stopped collecting data in 2001.[10]

> "Toll Rates. Up until August 2001, all interstate interexchange carriers were required to file tariffs setting forth their rates with the FCC. These filings were available for public inspection at the FCC's Reference Information Center, Washington, DC. As of August 1, 2001, interstate carriers were no longer required to file tariffs setting forth their interstate long distance rates. Since that date, carriers are required to post their rates on their websites."

13) 0% Tracking By the FCC Pertaining to Actual Phone Rates on Web Sites.

Regardless of any hype and statements made by the FCC about the veracity of the carriers' requirement to post their rates on their websites, we found no web site that provides a bill a customer would pay with all of the charges in one place. As we previously found, many of the web sites have old, inaccurate, incomplete, or missing data.

Examine the web sites:

- Verizon http://www.Verizon.com
- The Verizon Freedom Package
- http://www22.verizon.com/ForYourHome/SAS/sas_Freedom.aspx
- AT&T
- http://www.att.com

In the places where the companies explain the charges, these are incomplete at best. For example, the FCC Line Charge on every local bill is different by state (Capped at $6.50 as of January 2007.) A customer could not find out what it would cost, or what taxes and surcharges are being applied to it or any other part of the bill. Another example: Go to any description of a bundled package outlining a 'plan' and try to find all of the related charges a customer would pay for that plan. It does not exist.

While seemingly trivial, if a customer can not compare rates – the entire package cost vs say ala carte local and long distance, how can they make an objective decision?

We will come back to these issues.

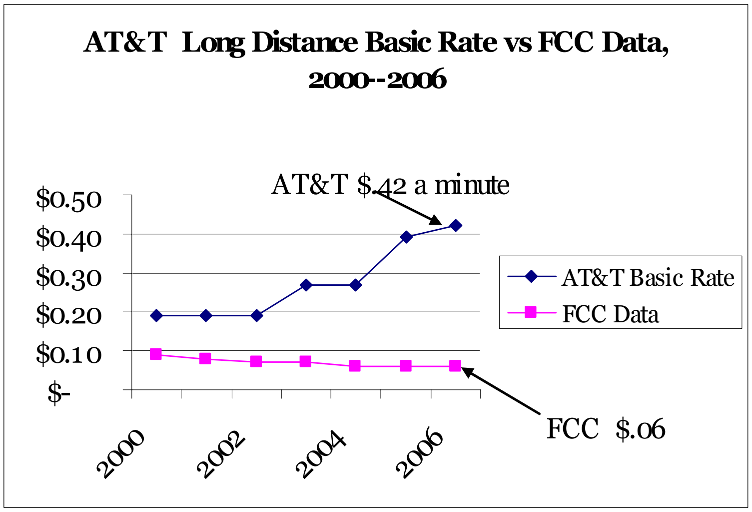
FCC Phone Bill Data is Very flawed, Contradictory and Harmful.

Let's cross reference some statistics provided by the FCC and other sources to demonstrate just how poor the FCC's data and analysis is for long distance service.

FCC Chairman Martin:

> "Since 1996 the prices of every other communications service have declined while cable rates have risen year after year after year."

The next chart outlines the crux of the problem… The FCC's data fails on multiple levels, especially when compared to the information we just presented relating to AT&T and MCI long distance charges. According to this simple comparison, the FCC claims that the average per minute charge was $.06 for 2004, down from $.09 in 2000. (2005 and 2006 we assigned the same number as the FCC's trend line shows declining costs.)[11]



The FCC claim that prices continue to drop, is against a backdrop of phone bill charges that shows that AT&T's charges continues to increase – to $.42 in 2006.

Let's go through some of the FCC data.

14) Average Cost for Long Distance in 2005

The FCC writes that the average bill in 2005 for long distance was $8 a month.[12]

> "Average Monthly Household Telecommunications Expenditures by Type of Provider* shows that by 2005 local service cost an average of $36 only $8 as long distance."

15) Revenue Per Minute for Long Distance

According to the FCC, the average was $.06 cents a minute in 2004, down from $.09 cents a minute in 2000.[13]

> "Average revenue per minute for interstate toll service calls for 2004 was $.06 cents."

Revenue Per Minute for Residential Long Distance, 2000-2004

2000	$0.09

2001	$0.08
2002	$0.07
2003	$0.07
2004	$0.06

Let's just examine this statistic separately.

Comparing the number supplied.

Of course, there are caveats. For example, the FCC's data doesn't give a good indication of the discounts off of list price for time of day or weekday vs holidays. More to the point, how is it that the data indicates that a very large part of the population is paying a great deal more for calls

For example, we see in 2004 that the average cost per minute is $.06, and yet the cost for AT&T's 20+ million customers was $.42, MCI's estimated 10 million customers, $.35. If 30 million customers are paying these rates, how can the total for 2005 equal $.06?

A fundamental step in the data is missing --- Separation of the information by 'low volume callers, medium volume and high volume users vs costs.

Here is a simple model of how the data fails. The $.06 cent number is aggregated for ALL customers – take the revenue, divide by the number of minutes made by all callers. It is a flawed analysis because it blends every user group and so the data favors the high-volume customers.

Let's break down the analysis:

Blending of User Groups vs Low-High Volume Analysis

	Minutes	Cost per Minute	Total
High Volume	1000	$.015	$15.00
Low Volume	15	$.42	$6.30
Blended	1015	$.021	$21.30

A) If a Low volume user makes 15 minutes and pays $.42 per minute then the total is $6.30.

B) If a high volume user makes 1000 minutes of calls on an unlimited package for $15.00 total, they are paying 1.5 cents.
C) Add both together and you get 1015 minutes at 6.30+$15.00 =21.30 --- the total cost per minute would be: $2.1 cents per minute.

Thus, the $.06 cent average may be correct for everyone in the US but it totally distorts the entire low volume user class. Thus the analysis harms 1/3 of the US.

16) Total Costs for Local and Long Distance.

The FCC claimed that in 2005, the average long distance bill was $8.00.

Total Costs for Residential Local and Long Distance, 2002, 2005

	Long distance	Cost per minute	minutes
2002	$12.39	$.07	177
2005	$8.00	$.06	133

If we simply cross reference this information, the customer would be making 177 minutes of calls in 2002, 133 minutes, if the long distance was based on the cost of calls.

This information about call minutes and minutes of use contradicts other FCC supplied information.

17) Minutes of Use for Long Distance and Time of Day Use

a) Minutes of Use:

According to the exhibit below, taken from the 2003 report, the average customer made only 41 minutes of long distance call minutes, (InterLATA-Interstate) 57 minutes if the "intraLATA toll" (commonly known as in-state "Toll" calls) is included. (There is no other data we could find later than 2002.)

FCC's Residential Minutes of Use, 2002

IntraLATA- Intrastate	28

InterLATA- Intrastate	16
IntraLATA- Interstate	1
InterLATA-Interstate	41
International	2
Others1	1
All Types	90

If the average cost in 2004 is $.06 cents a minute and we calculate based on 41 minutes, long distance service should cost $2.46 or $2.82 with instate toll calls.

- For 2002, if you take the data point that calls cost $.07, then if 41 minutes were used, it should cost only $2.87 cents. If you add the "interLATA Intrastate calls, the total would be 57 minutes times $.07 cents or $3.99 --- In 2002, $8.40 cents would be unaccounted for.

- For 2005: The average cost is $8.00 a month, and the average cost is $.06 a minute --- dividing out, the cost of long distance should be (using the 2002 information) is $3.42.with $4.58 missing.

The numbers don't match, obviously. The FCC's data lacks the other component – the actual break out of long distance costs, such as plan fees, additional fees, etc.

B) Time of Day Usage:

In order to accurately account for the cost of long distance service, another FCC supplied data point is useful.[14]

FCC's Long Distance Time of Day Usage Patterns, 2002.

Day	39%
Evening	28%
Weekend	33%
	100%

If we examine the data presented with differences in the cost per minute based on time of day, weekend and holiday discounts, the $.06 cent call may be that it cost more during the day than $.06 cents, -- but that is the 'blended rate' without any caveats to know whether different times of day or weekend have significant cost differences.

We will come back to this FCC data.

18) Astroturf Deception and the FCC Statistics.

The FCC has allowed an astroturf group, Telecommunications Research and Action Center, TRAC, to be one of the sources for data, a group funded by the Bell phone companies to harm long distance companies. It is run through a Washington based lobbying firm Issue Dynamics:

> "Finally, there are a number of firms that specialize in monitoring major long distance companies and their rates, and many of these firms maintain Internet sites. Some examples are Abtolls.com, a free directory service guide to long distance carriers and their rates; Telecommunications Research and Action Center, which uses a search engine to find the lowest long distance rates for any selected calling pattern; *Phone Bill Busters*, which lists discount long distance plans and uses a search engine to find the lowest long distance rates for any selected calling pattern; and *Discount Long Distance Digest*, an Internet newsletter which offers a "free multi-carrier cost comparison service". One can access these services on the Internet at www.abtolls.com, www.trac.org, www.phone-bill-busters.com, and www.thedigest.com.

More about TRAC: http://www.newnetworks.com/skunkworksTRAC.html

This is not the worst part. TRAC and other groups, such as Alliance for Public Technology (APT) have been able to manipulate the entire Bell entry into long distance and the removal of competition through various means. For example, TRAC and APT are currently on the FCC Consumer Advisory Committee. Teletruth filed a complaint to remove these groups and the industry players from the committee that is supposed to representing consumers.

See our complaint to the FCC on astroturf groups.
http://www.teletruth.org/USF.html

19) The Bottom Line – The FCC Doesn't Care About "Low Volume" Users, Especially in its fundamental, essential data

In the FCC's official reference book on phone bill prices, we find that the term "low volume" does not exist. We only find that the FCC wants to show the good impacts of their decisions which help "high volume" customers --- In fact, the FCC claims that 'basic schedule rates are 'obsolete' for high-volume customers.

From: "REFERENCE BOOK of Rates, Price Indices, and Household Expenditures for Telephone Service Industry Analysis & Technology Division Wireline Competition Bureau, 2006"

> "Toll Service Rates "The increased availability and marketing of discount and promotional long distance plans, as well as the popularity of wireless "bucket-of-minutes" plans, has made basic schedule rates obsolete for many long distance customers, particularly business customers and high volume residential consumers. Today wireline, wireless, and cable companies are offering consumers bundled packages of local and long distance service, and buckets of minutes that can be used to call anyone, anywhere, and anytime."

There is no mention of how many customers are 'high volume' customers, and there is no indication of the impacts on low volume or medium volume customers. The FCC simply wants to put on a 'good' face that their plan is working and that competition exists. As we will demonstrate, the FCC's data harmed customers because little, if any competition exists for an entire class of customers – which we estimate to be 1/3 of the US. In fact, our analysis shows that even medium customers --- another 1/3 of the US, have little benefit from packages.

Part Three: Packages and the Data: There Is No Competition for Most Customers.

There are multiple data points to show that packages are more expensive and not appropriate for most customers. This is NOT what the phone companies will tell you. They claim that the ‘triple play’ – local, long distance, broadband (and now cable) saves money.

When compared to the FCC data, the data is obviously contradictory… as we will show.

20) Cost to Customers: Harms to Low and Mid-Volume Users.

Step One: Call Volumes Types

During 2003-2004, Teletruth received a grant from the California Consumer Protection Fund to study all wireline, wireless, local, long distance and packages for all carriers, from AT&T and MCI to SBC, Verizon, Cingular and T-Mobile.

For long distance service, we found that 30% of residential customers made only 15 minutes of calls on average.

California Long Distance Calling Patterns, 2004[15]

15 minutes	30%	low volume users
73 minutes	33%	middle volume
170 minute	37%	high volume users.

FCC Data: Previously, we noted that the FCC showed that overall, customers made only 41 minutes of long distance calls, 57 minutes when Toll calls are added.

Step Two; Verizon's Local and Long Distance Package.

On the surface, Verizon's Freedom package for $44.95 for local and long distance might be considered a good deal. (NOTE: There is another package with no features for $39.95.)

http://www22.verizon.com/ForYourHome/SAS/sas_Freedom.aspx

> Includes unlimited local, regional and long distance calling in the U.S. and Puerto Rico plus 3 popular calling features. "Universal Service Fund, taxes and other charges apply. Tariffs apply to some services. Available only to residential customers in selected areas. Not all services available on all lines. Additional terms and conditions apply. © 2006 Verizon. All rights reserved."

Sounds good? $44.95?

However if you go deeper into the details you find a series of problems.

21) Advertised Cost Is Missing Charges that Can Add 35-45%.

No where, not in the advertising or the web site, or the Verizon mailers, does Verizon inform the customer that there are many charges that are simply missing from the advertised costs.

For example, on every local phone bill is the FCC Line Charge, which is capped at $6.50 a month per line. There is also an application of Universal Service Fund on this charge, usually adding 10%. In New York City (as in other areas), there are also multiple taxes and surcharges which add an additional 17% in NYC. (The tax assessment declined slightly in 2006 with the removal of the Federal Excise tax on some charges.)

Verizon's New York, Missing Charges on Packages[16]

Package	$44.95	
Not Included:		
E911	$1.00	
FCC Line	$6.40	
USF	$0.64	
Cost Recovery	$1.99	
USF LD	$1.50	
	$11.53	
Taxes	$7.90	
	$64.39	43%

Someone would expect that it is not legal to eliminate charges from the total advertised price if the charges must be paid in order to receive service. And some charges, such as the FCC Line Charge, alone adds over 16% to the total. Obviously, the FCC should have made this charge part of the advertised price to be 'accurate'.

22) Illegal Bundling with No Obvious Break Out of Local and Long Distance.

There is no break out as to what each component of the package is actually worth. Calculating just the long distance part is impossible. Previously, Verizon, on its 'Freedom" phone bills claimed that $15 a month was dedicated to long distance.

23) Other Services Not Included With Local Service.

Even when purchasing a package, the customer may have to still pay for more services – services they would buy ala carte.

A) The plan doesn't include some basic services, such as inside wire maintenance. --- While we do not recommend this service, this service was originally included with local service – all for $8.00. Seniors are one of the largest users of wire maintenance. During Teletruth interviews it is clear that in many cases, the customer either doesn't know they are paying for this service since 1984 (or didn't order it but are still paying for it) or has been coerced into purchasing it. "Just in case something happens…" It was also part of local service and so many seniors simply pay their bill and this has been on the bill since divestiture in 1984. We note that last we could find, the wire in the home breaks once every 16 years (except for flood and hurricane areas).

Verizon has continued to raise the cost of this service to $4.48 a month in New York.

B) No free directory assistance. Local service in New York City had 6 free calls and then 10 cents each in 1980. Most of the US had free directory or were given a lot of free calls with local service. Verizon, New York, local directory is now $1.25, not counting taxes, with no discounts or free calls. We bring this up because in previous surveys, about 1/3 of customers thought that some directory calls were included with local service. New Jersey, for example, still has some free directory calls. In that state, in 1984, directory was a free call and included with local service.

Directory free ride? Teletruth has argued that Verizon et al improperly received the exclusive use of the very lucrative 411 networks to offer long distance directory, an additional service from the original purpose of offering local directory. Putting the 411 networks up for bid would have made hundreds of millions of dollars annually, which could have lowered the cost of directory overall. (*Directory cost $.15-$.25 cents to offer per call.)

24) **Using Other Data and Analysis and Packages. --- Overcharging Customers through Packages.**

If low volume customers makes, on average, only 15 minutes of calls, the person should be paying around $.90 plus tax. Even middle volume users who make 41 minutes of calls should pay $2.46 plus tax. (Using the FCC's $.06 per minute cost.)

Using the Teletruth numbers, the majority, 63% of the total from the Teletruth survey – does NOT benefit from a package for their long distance service.

25) 25%? of Customers are Overpaying on "Plans".

Compare these data points:

- Verizon Freedom: $15 Unlimited Long Distance
- FCC data: $8 average Long Distance Bill 2004
- FCC Data: $36 average local service bill, 2004
- FCC Data: Average price per minute $.06
- FCC Data: 41 minutes average monthly Long Distance calling, 57 minutes counting toll calls.

Teletruth data from the California study in 2004 found that 15-25% seem to be paying more for a plan, not less, as they simply don't use the minutes or need the "package".

If we compare the actual cost of a Verizon "Freedom" package to the national local and long distance charge of $44. ($8+$36 from 2004)

a) Verizon claimed that their freedom package had $15 assigned to it, almost double the national long distance average.

b) Using the FCC's $44 for national average --- while the Verizon Freedom package cost $44.95, the actual cost, counting taxes, etc. was $64.39 ---Over $20 more than the national average for local and long distance.
c) If the national calling according to the FCC was only 41 minutes or 57 counting toll calls, and at a cost of $.06, then majority doesn't benefit from paying the "all you can eat plans for $15" (or more counting all of the taxes and surcharges.

Are all of these contradictions simply bad data collection and analysis by the FCC or simply gobbly-gook numbers that the FCC doesn't cross-check or analyze for their inherent flaws?

Competitive Choice for Low Volume Customers Doesn't Exist from "Intermodal" Competition.

The FCC claims that intermodal competition will fix everything: In granting the AT&T and MCI mergers they wrote:[17]

> "Moreover, we note the rapid growth of intermodal competitors – particularly cable telephony providers (whether circuit-switched or voice over IP (VoIP)) – as an increasingly significant competitive force in this market, and we anticipate that such competitors likely will play an increasingly important role with respect to future mass market competition."

It's all hype by the phone companies, and the FCC doesn't have a clue to the actual competitive issues, especially for low volume users.

26) VOIP, VONAGE as a Competitor?

There's been a lot of talk about VOIP – Voice over the Internet --- as a substitute for long distance and/or local phone calling. However, for low volume customers it's mostly hype.

Vonage offers a local and long distance service, using VOIP, which is advertised at $24.99. http://www.vonage.com/

While that also sounds reasonable, what many customers come to understand is that Vonage requires a broadband connection. In the case of a wireline DSL connection from AT&T or Verizon, these companies have a policy to require local service to run the DSL connection (which can be $19.95-$34.95) or pay a premium.

And there are other charges, including Universal Service as well as:

> "Rates exclude: broadband service, regulatory and activation fees and certain other charges, equipment, taxes, & shipping. Additional calling charges may apply on Basic Plans. International calls billed per minute. High-speed Internet required."

http://www.vonage.com/help.php?article=1191

> "Why am I being charged 911 fees? State and/or local governments may assess fees on Vonage to pay for emergency services in your community. Vonage bills and collects 911 fees from its customers, and remits such fees to the appropriate authority"

http://www.vonage.com/help.php?article=1064

In short, while the advertised price may be cheaper, when adding the additional charges and requirements, it is obvious not a low volume, low cost service.

27) The Cable Companies as Competitors for Low Volume Users.

Most of the cable companies we examined do not sell stand alone long distance or stand alone local service as a competitive choice. Everything is being sold as a 'bundled' product --- i.e., required to buy other services to get the low bundled costs.

28) Wireless as a Competitor for Low Volume Customers.

There is absolutely no data the FCC has created to be able to determine if wireless is a serious competitor to local and long distance phone service for low volume users or seniors. In fact, data indicates that it is not a competitive choice.

AARP's published reports[18] on wireless showed that

- 37% of Seniors 65" had a cell phone as compared to 65% 18-49
- Security, not casual calling, was the primary reason for having a cell phone for seniors.

> "When asked why they have cell phone service, respondents age 18—49 are most likely to say it offers the convenience of being able to make calls from anywhere. In comparison, cell phone users age 50—64 are just as likely to cite security in case of an emergency as they are to cite convenience as the reason they have cellular service. Among cell phone users age 65 and older, security is the single most common reason for having a cell phone."

"

Part Four: Stupid Consumer? Or Did Loyalty to MCI and AT&T, an Intentional "Harvesting" Practice and the Failure to Create Readable Phone Bills Harm Customers.

There are many who will be reading our analysis about AT&T and MCI's increases and say: "Stupid User"… The problem with that argument is that it isn't simply the fault of the consumer. We now know that AT&T and MCI had intentional plans to "harvest" customers, raising rates until the customer leaves. Unfortunately, customer loyalty and unreadable phone bills led to these customers being harmed. More to the point, the lack of accurate data allowed for this intentional harm during the merger process.

Let's go through the issues.

29) Harvesting AT&T Customers Is a Direct Intentional Harm.

In a footnote in the FCC's AT&T-SBC merger, we find out that there was a plan by AT&T to "harvest" customers, starting in 2004, only months before the announcement of the AT&T-SBC merger.

> "'Harvesting' refers to AT&T's increasing prices to encourage customers to discontinue service."[19]

AT&T claimed it had 25 million customers January 2005. AT&T also knew that these were 'loyal' customers, who were mostly seniors. Due diligence required for the AT&T-SBC merger would have revealed this fact. Thus AT&T and SBC knew for a fact that their actions would target a specific user group. This is intentional harm to a specific customer base.

More to the point, the FCC allowed this harm to be melded into the SBC-AT&T and Verizon-MCI mergers. As we discussed the FCC's data is so flawed that it didn't notice major increases to long distance service, much less to low volume customers.

30) Harvesting Works by Preying on Customer Loyalty, Lack of Customer Education, and Unreadable Phone Bills.

It is important to remember that AT&T is a 100+ year old company, with the best name brand in the history of telecom – "Ma Bell". SBC, renamed itself "AT&T" for a reason.[20]

> "The AT&T name has a proud and storied heritage, as well as unparalleled recognition around the globe among both businesses and consumers,"
>
> "Additionally, it has almost universal awareness as a communications brand: Internal research shows that in the United States, consumer awareness of the AT&T brand is 98 percent and business awareness is virtually 100 percent, while global awareness is nearly as high."

When combined with brand loyalty, especially among seniors, a failure to educate customers about the basics of the charges on the phone bills and obscured by unreadable bills, there is no wonder that the company could take advantage of the loyal customer base.

31) AT&T Is Still Hyping the Customers.

AT&T never revealed that it was raising rates. In fact, AT&T still states that their prices are cheaper than most others when you examine the other fees:

> "In their advertising, other long distance companies say they're much less expensive than AT&T. Is that true?
>
> "No. While some long distance companies advertise rates that they claim are lower than AT&T rates, you need to be aware of the comparisons they're making. Often, they compare their discounted calling plans to AT&T basic, non-discounted rates. That may not be a relevant comparison for you, because you may be able to take advantage of AT&T's competitive discount calling plans. Companies' calling plans are not usually the same, so read the fine print before making a decision."
>
> "Some long distance companies offer what appear to be low rates. But you need to be aware of all the requirements of their offer. If you're considering such an offer, look closely for restrictions on who or when you can call. Also, consider the company's reputation: is it a brand you know and trust or a company that you've never even heard of before? Is it a company that's innovative and likely to offer new services as your needs change? What kind of response will you get if you have a service or billing problem? AT&T combines quality and reliability with competitive pricing. And, perhaps most importantly, we can help you select the AT&T calling plan that best meets your calling needs."

32) Targeting Seniors.

AT&T, SBC and FCC must all have known that harvesting would harm seniors because of their loyalty, and an overall lack of being active consumers who can read their phone bills or who look for new services.

AARP conducted a survey in 2000[21] and found that most seniors were low volume users who were loyal to AT&T and MCI and that they were not active in looking for competitive long distance providers. (No updated data is available.)

- 75% of seniors were paying basic rates.
- Seniors made only 3 calls a week on average.
- 74% used either AT&T or MCI and seniors were not active consumers.
- Only 33% said they "search among long distance telephone providers for the least expensive rate".[22]

33) Phone Company Phone Bills, Web Sites, Advertisements, Are Not Understandable.

Let's face it; there is no truth-in-billing in the truth-in-billing regulations or enforcement.

- In 1993, New Networks Institute (NNI) conducted a telephone survey of 1000 customers and found that literally 0% (3 out of 1000) of the population could answer basic questions about the charges on their phone bills.
- In 1994, Sprint had Candice Bergen show that phone bills were more complicated than the plans for a B-2 stealth bomber.
- In 1998, then FCC Chairman William Kinnard told attendees during a speech at the New York Law School that he couldn't read his own phone bill.
- In March 2000, the FCC published the "Truth-In-Billing" guidelines to make phone bills more readable.

I dare anyone reading this to not get a bit queasy when we ask them to read the details of their phone bills. It is not simply the issue of cosmetics. In our last survey of phone bills Teletruth found over 60 violations of the "Truth-in-Billing" regulations.

And there are multiple problems. First, there is no Rosetta stone for reading a phone bill. Worse, many items are missing or deceptive, and tax applications are simply mysterious or incorrect --- it is clear that the Sphinx is better understood than phone bills.

What is Truth-in-Billing? Here's what the FCC writes about this topic:

http://www.fcc.gov/cgb/policy/truthinbill.html

> "The Commission has adopted Truth-in-Billing rules to improve consumers' understanding of their telephone bills. Among other things, section 64.2401 of the rules require that a telephone company's bill must: (1) be accompanied by a brief, clear, non-misleading, plain language description of the service or services rendered; (2) identify the service provider associated with each charge; (3) clearly and conspicuously identify any change in service provider; (4) contain full and non-misleading descriptions of charges; (5) identify those charges for which failure to pay will not result in disconnection of the customer's basic local service; and (6) provide a toll-free number for customers to call in order to lodge a complaint or obtain information."

Dear Reader. Stop laughing. As you look at your own bill and compare these rules, it is clear that there is no truth in billing in the truth-in-billing rules.

34) No Total Cost Per Minute, No Data On The Web Site For Total Costs Vs Advertised Costs.

In our previous examples we outlined how Verizon's Freedom package (like all packages offered by almost all phone companies) does not include the extra charges in their advertised price.

If you return to the Verizon page, try to find any reference to the actual costs of any of the services – including taxes and surcharges, or even the FCC Line Charge.

http://www22.verizon.com/ForYourHome/SAS/sas_Freedom.aspx

In short, while it may seem that the consumers aren't savvy enough to find lower cost services, it is clear that AT&T and MCI intentionally created a plan to raise rates based on knowing that many customers would continue to pay higher rates.

Against a backdrop of a well-heeled marketing plan to intentionally harm low volume and seniors, without a significant educational campaign to overcome unreadable phone bills, and with a total failure of oversight by the FCC and regulators, who also lack their own accurate data, why should we expect any other outcome than to harm 1/3 of the US phone customers?

APPENDIX ONE
FCC Statistics of the Long Distance Telecommunications Industry, May 2003

Table 11
Regional Bell Operating Companies' Applications
To Provide In-Region InterLATA Service *
(Section 271 Applications)

State	Resolution	Date Application Filed	Date Application Resolved
Alabama	**Approved**	**06/20/02**	**09/18/02**
Arkansas	**Approved**	**08/20/01**	**11/16/01**
California	**Approved**	**09/20/02**	**12/19/02**
Colorado	Withdrawn	06/13/02	09/10/02
Colorado	**Approved**	**09/30/02**	**12/23/02**
Connecticut	**Approved**	**04/23/01**	**07/20/01**
Delaware	**Approved**	**06/27/02**	**09/25/02**
District of Columbia	**Approved**	**12/18/02**	**03/19/03**
Florida	**Approved**	**09/20/02**	**12/19/02**
Georgia	Withdrawn	10/02/01	12/20/01
Georgia	**Approved**	**02/14/02**	**05/15/02**
Idaho	Withdrawn	06/13/02	09/10/02
Idaho	**Approved**	**09/30/02**	**12/23/02**
Iowa	Withdrawn	06/13/02	09/10/02
Iowa	**Approved**	**09/30/02**	**12/23/02**
Kansas	**Approved**	**10/26/00**	**01/22/01**
Kentucky	**Approved**	**06/20/02**	**09/18/02**
Louisiana	Denied	11/06/97	02/04/98
Louisiana	Denied	07/09/98	10/13/98
Louisiana	Withdrawn	10/02/01	12/20/01
Louisiana	**Approved**	**02/14/02**	**05/15/02**
Maine	**Approved**	**03/21/02**	**06/19/02**
Maryland	**Approved**	**12/18/02**	**03/19/03**
Massachusetts	Withdrawn	09/22/00	12/18/00
Massachusetts	**Approved**	**01/16/01**	**04/16/01**
Michigan	Withdrawn	01/02/97	02/11/97
Michigan	Denied	05/21/97	08/19/97
Michigan	Withdrawn	01/16/03	04/16/03
Minnesota	*Pending*	*03/28/03*	*1/*
Mississippi	**Approved**	**06/20/02**	**09/18/02**
Missouri	Withdrawn	04/04/01	06/07/01
Missouri	**Approved**	**08/20/01**	**11/16/01**
Montana	Withdrawn	07/12/02	09/10/02
Montana	**Approved**	**09/30/02**	**12/23/02**
Nebraska	Withdrawn	06/13/02	09/10/02
Nebraska	**Approved**	**09/30/02**	**12/23/02**
Nevada	**Approved**	**01/14/03**	**04/14/03**
New Hampshire	**Approved**	06/27/02	**09/25/02**
New Jersey	Withdrawn	12/20/01	03/20/02
New Jersey	**Approved**	**03/26/02**	**06/24/02**
New Mexico	**Approved**	**01/15/03**	**04/15/03**

Regional Bell Operating Companies' Applications
To Provide In-Region InterLATA Service *
(Section 271 Applications)

State	Resolution	Date Application Filed	Date Application Resolved
New York	**Approved**	**09/29/99**	**12/22/99**
North Carolina	**Approved**	**06/20/02**	**09/18/02**
North Dakota	Withdrawn	06/13/02	09/10/02
North Dakota	**Approved**	**09/30/02**	**12/23/02**
Oklahoma	Denied	04/11/97	06/26/97
Oklahoma	**Approved**	**10/26/00**	**01/22/01**
Oregon	**Approved**	**01/15/03**	**04/15/03**
Pennsylvania	**Approved**	**06/21/01**	**09/19/01**
Rhode Island	**Approved**	**11/26/01**	**02/22/02**
South Carolina	Denied	09/30/97	12/24/97
South Carolina	**Approved**	**06/20/02**	**09/18/02**
South Dakota	**Approved**	**01/15/03**	**04/15/03**
Tennessee	**Approved**	**09/20/02**	**12/19/02**
Texas	Withdrawn	01/10/00	04/05/00
Texas	**Approved**	**04/05/00**	**06/30/00**
Utah	Withdrawn	07/12/02	09/10/02
Utah	**Approved**	**09/30/02**	**12/23/02**
Vermont	**Approved**	**01/17/02**	**04/17/02**
Virginia	**Approved**	**08/01/02**	**10/30/02**
Washington	Withdrawn	07/12/02	09/10/02
Washington	**Approved**	**09/30/02**	**12/23/02**
West Virginia	**Approved**	**12/18/02**	**03/19/03**
Wyoming	Withdrawn	07/12/02	09/10/02
Wyoming	**Approved**	**09/30/02**	**12/23/02**

* As of May 1, 2003.

1/ Statutory deadline for Commission action is June 26, 2003.

ENDNOTES:

[1] SBC/AT&T Application, Declaration of John Polumbo (SBC/AT&T Polumbo Decl.) at paras. 3-40; AT&T Info. Req., Exhs. 16(b)-I, 16(b)-IV; *see also* AT&T Info. Req., ATT551002844-51, ATT5600000524-90."Harvesting" refers to AT&T's increasing prices to encourage customers to discontinue service.
[2] Consumer Understanding of Pricing Practices and Savings Opportunities in the Long Distance Telephone Industry. AARP, 2000
[3] SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control, WC Docket No. 05-65, MEMORANDUM OPINION AND ORDER
Adopted: October 31, 2005 Released: November 17, 2005
[4] (We use the announcement to show how they are tied to other, harmful customer actions.)
[5] (NOTE: The changes for this model are taken directly from phone bills and the AT&T supplied information. It is for a low volume user (based on Teletruth data) in New York. We have taken special care to 'rate' the calls by time of day and weekend based on FCC's supplied information pertaining to call activity for 2002 (the FCC's latest data.) i.e., we rated the call minutes as a percentage of day, evening, night rates as well as weekend rates based on nationwide calling patterns. Also, each state has a different collection of taxes and surcharges, and each carrier can apply these taxes on different items. And each customer can make varying amounts of calls. This chart is based on our low volume model, where the calls only makes 15 total minutes a month.
[6] If you go to: Click on the guide. A Microsoft Word document opens: Then click on AT&T Direct Dialed Station state to state.
http://serviceguide.att.com/ACS/ext/od.cfm?OID=652&menu=101

- AT&T will rate eligible direct dialed station state-to-state calls as follows:
  — From United States Mainland and Hawaii as identified in AT&T Direct Dialed Station State-to-state rate schedule –DDDD01DSX-M.

An excel sheet opens and you see that it lists the day rate (Peak) at $.42
[7] Coalition for Affordable Local and Long Distance Service (Calls)Modified Proposal
CC Docket No. 94-1, CC Docket No. 96-45, CC Docket No. 99-249, CC Docket No. 96-262 Report on Consumer Education by the Members of the Coalition for Affordable Local and Long Distance Service ("Calls"), September 19, 2000

[8] Attachment 11, Declaration of Wayne Huyard, Redacted – For Public Inspection
In the Matter of, Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control, WC Docket No. 05-75 Declaration of Wayne Huyard
[9] SBC Communications Inc. and AT&T Corp. Applications for, Approval of Transfer of Control WC Docket No. 05-65, Memorandum Opinion And Order Adopted: October 31, 2005 Released: November 17, 2005
[10]: "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service" Industry Analysis and Technology Division of the Wireline Competition Bureau (March 31, 2006)
[11] Ibid.
[12] Ibid.
[13] Ibid.
[14] Statistics of the Long Distance Telecommunications Industry, FCC, May 2003.
[15] Based on phone bill data, combined carriers, 2004, 120 phone bills.
[16] *estimate based on package information and local phone information for New York City.
[17] SBC Communications Inc. and AT&T Corp. Applications for, Approval of Transfer of Control WC Docket No. 05-65, Memorandum Opinion And Order Adopted: October 31, 2005 Released: November 17, 2005
[18] "Older Persons and Wireless Telephone Use, Research Report AARP Public Policy Institute , May 2005
http://www.aarp.org/research/utilities/phone/fs116_wireless.html,
[19] See SBC/AT&T Application, Declaration of John Polumbo (SBC/AT&T Polumbo Decl.) at paras. 3-40; AT&T Info. Req., Exhs. 16(b)-I, 16(b)-IV; see also AT&T Info. Req., ATT551002844-51, ATT5600000524-90.
[20] SBC Communications to Adopt AT&T Name, Following Merger Approval, Combined SBC-AT&T Will Build on a 120-Year Heritage of Innovation, Service Quality, Integrity, Reliability
http://www.hostreview.com/news/press/051027ATT.html
[21] Consumer Understanding of Pricing Practices and Savings Opportunities in the Long Distance Telephone Industry. AARP, 2000
[22] Consumer Understanding of Pricing Practices and Savings Opportunities in the Long Distance Telephone Industry. AARP, 2000